

■ New Option for Sales of Service From One Serviceperson to Another

TO: Servicepersons

If you are an unregistered, primary serviceperson who purchases service from an unregistered, secondary serviceperson, you may qualify to use a new option for meeting your sales and use tax obligations. This new option became available beginning with purchases made on or after August 14, 1996.

Under this new option, you can remain unregistered and purchase service from an unregistered, secondary serviceperson providing neither of you are required to register as a retailer or serviceperson.

For the purposes of this bulletin, the term "purchase service" means to purchase items of tangible personal property that are transferred as part of the service provided.

Why was this new option made available and how does it work?

Prior to this change, servicepersons doing business as described above were required to pay tax to their suppliers. These primary

servicepersons could not pay tax to unregistered, secondary servicepersons on the purchases of service they made. As a result, they had to register with the department solely to self-assess use tax.

This new option allows the primary serviceperson to avoid registering for this reason providing the secondary serviceperson certifies in writing that he or she **has paid** or **will pay** tax on the cost of the items transferred as a part of the service provided.

When am I required to register as a retailer or serviceperson?

Whether you are a primary or secondary serviceperson, we require you to register

- as a retailer if you sell items at retail, and
- as a serviceperson if the cost of the items you transfer to your customers as a part of your service is greater than 35 percent (75 percent in the case of prescription drugs or printing services) of your total receipts from sales of service.

What are some examples of purchases between primary and secondary servicepersons?

You are a primary serviceperson purchasing service from secondary serviceperson if, for example, you are

- a dentist purchasing crowns for your customer from a dental lab, or
- an optometrist purchasing lenses for your customer from an eyewear lab.

As a primary serviceperson using this option, what records must I keep?

In order to show that you have met your tax obligations, your records must include

- the secondary serviceperson's name and address,
- a description of any items sold (transferred) as a part of the service provided, and
- a signed and dated statement from the secondary serviceperson that he or she has paid or will pay the tax due on those items.

What if I cannot obtain a certification from the secondary serviceperson?

If the Illinois or out-of-state secondary serviceperson does not provide you with a written certification, you must pay use tax on your cost of materials purchased as a part of the service. Your cost price is the separately stated selling price, or if the selling price is not separately stated, 50 percent of the total invoice.

In this instance, you must register with us to pay use tax directly to the department on your purchases, or if you are already registered, you must remain registered and pay this tax when you file your Form ST-1, Sales and Use Tax Return.

Are there any circumstances when I can be registered and still use this option?

Yes, if you are registered solely in order to pay use tax on purchases that you make.

To illustrate this, if you are a primary serviceperson and you purchase items from an out-of-state vendor that does not charge you Illinois Sales Tax,

you must pay Illinois Use Tax on your purchases. In order to do so, you must be registered with us.

Even though you are registered solely for that purpose, you may still use this new option to satisfy your sales and use tax obligations on **other** purchases of service you make from un-registered, secondary servicepersons who provide the proper certification.

Questions?

If you have questions or need more information, please call or write us. Our telephone numbers and address are printed at the bottom of this bulletin.

